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### Agricultural Budget in 2010

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**Report Highlights:**

According to the Russian Agricultural Minister Yelena Skrynnik, in 2010 the federal budget for the Agriculture Development Program will be 107.6 billion rubles (\$3.6 billion); including 79.4 billion rubles (\$2.6 billion) to the interest rate subsidies in the 2010 have increased 30 percent over 2009 as the Russian Government hopes to increase farmers' access to commercial capital.

## General Information:

The aggregated federal budget of the three major federal agricultural institutions (the Ministry of Agriculture - MinAg, the Federal Service for Veterinary and Phytosanitary Surveillance – VPSS, and the Federal Fishery Agency) in 2010 will be 161.3 billion rubles (\$5.3 billion<sup>1</sup>), a 9 percent increase over 2009, but its share of the Russian federal budget in 2010 still remains less than 2 percent<sup>2</sup>. The structure of the federal budget for these three institutions in 2010 is in the Attachment 1. The allocations to the Ministry of Agriculture (MinAg) include funding to support agricultural policy and direct support for priority agricultural industries such as dairy, meat, poultry, livestock breeding, and the primary processing of meat and milk.

According to Agriculture Minister Yelena Skrynnik<sup>3</sup>, in 2010 the Ministry of Agriculture's funds for the implementation of the State Program for Development of Agriculture<sup>4</sup>, including subsidies and direct federal investments into development of some agricultural industries, will be 107.6 billion rubles (\$3.6 billion). This budget will be distributed as following:

- interest rate subsidies<sup>5</sup> will reach 79.4 billion rubles (\$2.6 billion), or 74 % of the total. This is a 30 percent increase over the 2009 level,
- allocations for preservation and restoration of soil fertility will be 8.7 billion rubles (\$290 million), or 9 % of the total,
- support of social development of rural area, including subsidies, will amount to 7.7 billion rubles (\$257 million), or 7 % of the total,

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<sup>1</sup> For calculations in the U.S. dollars the exchange rate is 30 rubles per \$1

<sup>2</sup> Source: "Attachment to the Federal Law "On the Federal Budget for 2010 and the planned Period 2011 and 2012" (Rossiyskaya Gazeta, December 11, 2009); "On Amendments to the Federal Law "On the Federal Budget for 2009 and the planned Period 2010 and 2011" (Rossiyskaya Gazeta, May 6, 2009)

<sup>3</sup> Source: Agricultural Minister's report to the State Duma on February 17, 2010, and other MinAg's information:

[www.mcx.ru](http://www.mcx.ru)

<sup>4</sup> The framework State Program for Development of Agriculture for 2008-2012 was adopted in 2007 in accordance with the Russian Federal Law on Development of Agriculture. Most of annual budget allocations for the Ministry of Agriculture aim at implementation of parameters of this Program. For more information see GAIN RS7051 \_ Agricultural Situation \_ Government Program for Agriculture and for Market Regulation 2008-2012 \_ Moscow \_ Russian Federation

<sup>5</sup> Federal budget subsidizes from 80 to 100 percent of interest rate of bank's loans to agricultural producers.

- support of other agricultural industries, including seed and pure-bred livestock breeding and crop insurance will be 6.2 billion rubles (\$207 million), or 6 percent of the total, and
- other measures – 5.7 billion rubles (\$190 million), or 5 percent of the total.

### Interest Rate Subsidies

Interest rate subsidies will be the major tool in developing priority agricultural projects in 2010. These subsidies cover from 80 to 100 percent of interest rate of bank's loans (short-, middle, and long-term) to agricultural producers. The MinAg's budget for these subsidies will increase by 30 percent from the last year, and will reach 79.4 billion rubles or \$2.6 billion. The subsidies will be given for financing of previous projects and for the new investments in the following areas:

- dairy and meat livestock breeding, poultry breeding,
- primary processing of meat and milk,
- acquisition of Russian agricultural machines and equipment,
- construction and modernization of sugar refineries,
- modernization and construction of grain elevators.

Minister Skrynnik expects that interest rate subsidies will provide capital for new projects in agriculture. The Ministry of Agriculture estimates that the total value of these new projects might exceed 163 billion rubles (\$5.4 billion) in 2010, including projects in dairy and meat livestock breeding will reach 89.0 billion rubles (\$3.0 billion), projects in poultry breeding will be 31.0 billion rubles (\$1.0 billion), projects in primary processing of meat and milk - 2.3 billion rubles (\$77 million), grain storage projects – 30.0 billion rubles (\$1.billion), and sugar refinery projects – 10.9 billion rubles (\$363 million). Minister Skrynnik expects that more than 220 new projects in dairy and meat livestock breeding will allow increased meat production in 2010 by 500,000 metric tons (5 percent up from 2009), and milk production - by 450,000 metric tons (1.3 percent increase from last year).

The Minister specifically mentioned that 3.5 billion rubles ((\$117 million) of MinAg's interest rate subsidies will be given for purchasing Russian agricultural machines and equipment and might increase farmers' demand in Russian technology by 70 billion rubles (\$2.3 billion) in 2010.

### Other Ministry of Agriculture's Subsidies for Implementation of the State Program

In 2010 MinAg's budget will have approximately 18.6 billion rubles (\$620 million) for subsidizing the following spheres of agricultural production:

- pure-bred breeding – 3.7 billion rubles (\$123 million),
- mineral fertilizer supply – 4.7 billion rubles (\$157 million),
- hybrid seeds breeding – 500 million rubles (\$17 million),
- social development of rural territories – 7.7 billion rubles (\$257 million),
- insurance of agricultural production – 2 billion rubles (\$67 million).

#### Distribution of Federal Subsidies Among Provinces

Most of MinAg's subsidies (interest rate subsidies and other) will be dispersed through the local provinces. In order to increase efficiency of use of these subsidies, the Ministry of Agriculture plans to distribute these funds on the basis of bilateral agreements with provinces. The federal budget envisages that funds will be given to provinces on the basis of co-financing. This practice began in 2009. However, in 2009 some provinces were not able to obligate federal budget funds because they were not able to co-finance projects. Because of the difficulty in matching funds, the government plans to decrease the required share of co-financing from 50 percent in 2009 to 35 percent in 2010.

As of February 11, 2010, Minister Skrynnik signed the first agreements with nine provinces, including such major agricultural producers as Krasnodar kray, Rostov and Orenburg oblasts and Mordovia Republic. According to Skrynnik, before spring sowing starts, provinces will receive one-third of all federal subsidies planned for 2010.

In 2010, the procedure of distributing interest subsidies from the federal budget for financing projects in agriculture will change: all new projects will be selected at the Inter-Agency Commission for Financing of Agro-Industrial Complex. The Commission will be composed of representatives of banks, branch unions, Ministry of Agriculture, Ministry of Finance, and Ministry of Economic Development. The new projects will be selected based on the following criteria: compliance with targets of the social-economic development of the constituent entity (province) of the Russian Federation and the Russian ecological legislature, economic viability of implementation of the project in the specific province with due account to provincial PSD balances for major agricultural products, preservation or increase of jobs, improvement of living conditions of attracted specialists, and pay-off period of the project (not more than 10 years).

#### Additional 5 Billion Budget Rubles for Distribution of Grain Intervention Stocks

On February 20, 2010, the Russian Government issued Resolution #68 which added 5,038 million rubles (\$168 million) for subsidizing grain distribution from the federal Grain Intervention Fund. The source of these subsidies will be the federal fund for additional support of industries of Russian economy. The Government hopes that these subsidies will cover expenses of distribution of up to 3.0 MMT of intervention grain, and might bolster falling domestic grain prices.

#### Federal Support of Agriculture in 2009

Although the planned 2010 budget of the three major agricultural institutions increased in 2010 from the 2009 level by 9 percent to 161.3 billion rubles (\$5.4 billion), the total federal funds for agriculture in 2010 might be lower than in 2009 by almost 29 billion rubles (\$977 million). According to the Agriculture Minister Skrynnik, in 2009 Russian agriculture received 190 billion rubles (\$6.3 billion) in federal funds. This included outlays for the Ministry of Agriculture, VPSS, and Fishery Service, and additional funds for anti-crisis measures in agriculture and related industries. Most of these funds were given to the government owned Savings Bank of Russia and Russian Agricultural Bank (Rosselkhozbank), and to the government owned machines and equipment leasing company Rosagroleasing. The Charter Capitals of the latter two increased by 45 billion rubles (\$1.5 billion) and by 25 billion rubles (\$833 million) respectively. According to Russia's Agricultural Minister, Yelena Skrynnik, all of these federal budget funds helped to stimulate 776 billion rubles (\$25.9 billion) in loans for investments for agricultural development and fish and forestry industries. State banks were the major creditors of these industries. Thus, Rosselkhozbank loaned farmers 340 billion rubles (\$11.3 billion) and Savings Bank of Russia (Sberbank) loaned farmers and agri-business 362 billion rubles (\$12.1 billion). All of these loans, according to Minister Skrynnik, financed the construction of over 250 new dairy and meat facilities in 2009. As a result, the Minister said, meat production in 2009 increased by 6.6 percent to 9.95 million metric tons, and milk production increased by 0.7 percent to 32.6 million metric tons.

In 2010 the government does not plan any special anti-crisis funds for agriculture, and the total level of actual financing for agriculture will drop. However, Minister Skrynnik hopes that next year the federal budget for agriculture will increase. After the Minister's presentation, the Russian Duma decided to appeal to Prime Minister Vladimir Putin for additional money for development of agriculture in 2010. However, it is not likely that this appeal will be taken into consideration in the near future.

#### Comments

Unlike 2009, in 2010 the Russian agricultural sector will hardly receive any emergency anti-crisis funds from the federal budget, although some funds from 2009, including funds for the Charter Capital

of Rosselkhozbank and Rosagroleasing, will last through 2010. Unfortunately, it is impossible to estimate the influence of these emergency funds, because there is no information on their use or repayment. Therefore, in 2010 the Russian agriculture shall rely exclusively on the MinAg budget, VPSS and the Federal Fishery Agency. However, in 2010 federal funds may be used more effectively than in 2009 due to the following:

- An increase of MinAg's funds for interest rate subsidies, which may result in growth of agricultural loans to agriculture in 2010;
- The decrease of the mandatory share of provinces' co-financing of priority agricultural projects. This measure might stimulate provincial budgets to invest more funds to agricultural projects;
- The Ministry of Agriculture intends to tighten its policy of distributing subsidies among provinces, and to tighten control over spending of these funds. Better selection of projects and tighter control over their implementation might result in their higher effectiveness.

However it will take several years for livestock development projects to show a profit and 2010 and 2011 farmers may have problems repaying outstanding loans. Through various methods of controlling imports (primarily meat and milk products) and subsidizing exports (primarily wheat), the Russian government has shown great determination in creating domestic market conditions in which Russian enterprises take and repay loans. While this makes it harder to export meat to Russia, these policies and subsidized loans are helping Russian companies buy greater quantities of animal genetics including pure-bred cattle and hogs as well as equipment and feed ingredients which are in short supply in Russia.

## **Attachment 1**

Federal Budgets for the Ministry of Agriculture, Federal Service for Veterinary and Phytosanitary Surveillance, and the Federal Fishery Agency in 2009 and 2010(\*)

	1,000 rubles		\$US	
	2009	2010	2009	2010

TOTAL FEDERAL BUDGET	8,709,781,744	8,846,973,526	290,326,058	294,899,118
			0	0
<b>MINISTRY OF AGRICULTURE</b>	<b>127,363,835</b>	<b>137,586,936</b>	<b>4,245,461</b>	<b>4,586,231</b>
Including:				
- <b>National level issues, incl. international cooperation</b>	15,728	16,598	524	553
- - International relations and cooperation	15,728	16,598	524	553
- <b>National economy</b>	25,838,106	21,412,073	861,270	713,736
- - Agriculture and fisheries	23,672,295	20,205,126	789,077	673,504
- - - Federal Target Programs		4,821,727	0	160,724
- - - State Support of Agriculture		131,174	0	4,372
- - - Applied research and development	896,024	391,720	29,867	13,057
- - Other issues concerning national economy	1,269,787	815,226	42,326	27,174
- <b>Education</b>	16,910,457	16,528,168	563,682	550,939
- - Pre-school education	2,847	2,530	95	84
- - Professional training and upgrading	343,908	353,343	11,464	11,778
- - Higher professional education and training	16,481,220	16,086,449	549,374	536,215
- - Applied research in the sphere of education	78,559	82,191	2,619	2,740
- - Other issues in the sphere of education	3,922	3,656	131	122
- <b>Health issues and sport activities</b>	27,651	178,113	922	5,937
- <b>Social Policy</b>	79,118	79,118	2,637	2,637
- <b>Transfers to provincial and other budgets</b>	84,499,267	99,372,867	2,816,642	3,312,429
- - Subsidies to provincial and municipal budgets	84,468,611	99,351,408	2,815,620	3,311,714
- - - Federal target programs	19,294,395	13,731,408	643,147	457,714
- - - State support of agriculture	64,060,450	120,000	2,135,348	4,000
- - - State Program of development of agriculture and market regulation 2008-2012		85,500,000	0	2,850,000
- - - - Interest rates compensation subsidies to agricultural enterprises for 2-10 years' loans	29,057,460	59,820,000	968,582	1,994,000
- - - - Interest rates compensation subsidies to individual producers and farmers for loans up to 8 years	6,027,200	5,800,000	200,907	193,333
- - - - Sheep breeding subsidies	624,000		20,800	0
- - - - Seed breeding subsidies	582,090	500,000	19,403	16,667
- - - - Subsidies for delivery of seeds to the Northern and other remote territories	400,000		13,333	0
- - - - Flax and hemp production support subsidies	258,000		8,600	0
- - - - Subsidies for maintenance of orchards	834,500		27,817	0
- - - - Subsidies for insurance of agricultural crops and orchards	2,000,000	2,000,000	66,667	66,667
- - - - Subsidies for support of northern deer herds	283,700	180,000	9,457	6,000
- - - - Subsidies for support of pedigree livestock	5,577,200	3,500,000	185,907	116,667
- - - - Interest rates compensation subsidies to all agricultural enterprises for loans up to 1 year	10,000,000	13,700,000	333,333	456,667
- - - - Interest rates compensation subsidies to fish farms for loans up to 8 year	120,000	120,000	4,000	4,000
- - - - Subsidies for acquisition of agrochemicals	226,300		7,543	0

- - - Subsidies for development of extension service	270,000		9,000	0
- - - Subsidies for support of important regional programs	7,800,000		260,000	0
- - Subventions to provinces and municipal authorities	30,656	21,459	1,022	715
			0	0
<b>FEDERAL SERVICE FOR VETERINARY AND PHYTOSANITARY SURVEILLANCE</b>	<b>11,881,698</b>	<b>9,868,492</b>	<b>396,057</b>	<b>328,950</b>
including:			0	0
- <b>National economy</b>	11,246,357	9,303,239	374,879	310,108
- - Agriculture and fishery	1,988,382	2,015,337	66,279	67,178
- - Applied research and development	12,198	41,004	407	1,367
- - Other national economy issues	9,245,777	7,246,898	308,193	241,563
- <b>Social policy</b>	46,000	20,000	1,533	667
- <b>Transfers to provincial and municipal budgets</b>	589,341	545,253	19,645	18,175
			0	0
<b>FEDERAL FISHERY AGENCY</b>	<b>8,320,671</b>	<b>13,870,494</b>	<b>277,356</b>	<b>462,350</b>
including:			0	0
- National level issues	27,113	36,515	904	1,217
- National economy	5,205,338	10,881,062	173,511	362,702
- Education	2,452,134	2,619,046	81,738	87,302
- Social policy	24,000	24,000	800	800
- Transfers to provincial and municipal budgets	612,086	309,670	20,403	10,322
			0	0
<b>GRAND TOTAL for Agriculture and Fishery</b>	<b>147,566,204</b>	<b>161,325,922</b>	<b>4,918,873</b>	<b>5,377,531</b>
Share of the total agricultural and fishery budget in the total federal budget	1.69	1.82	1.69	1.82
Share of MinAg's budget in the total federal budget	1.46	1.56	1.46	1.56
(*) The data in the table is structured in accordance with the official budget codes, and allocations may not exactly match volumes declared by the Minister of Agriculture				

Source: Federal Law “On Changes to the Federal Budget for 2009 and the Planned Period 2010 and 2011” (Rossiyskaya Gazeta, May 6, 2009), Attachments to the Federal Law “On the Federal Budget for 2010 and the Planned Period 2011 and 2012” (Rossiyskaya Gazeta, December 11, 2010).